

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-13 ISO-00 EURE-00 INRE-00
SSO-00 NSCE-00 USIE-00 AID-05 CIAE-00 EB-08 FRB-01
INR-07 NSAE-00 XMB-04 OPIC-06 SP-02 LAB-04 SIL-01
OMB-01 NSC-05 SS-15 STR-04 CEA-01 AGRE-00 FEA-01
OPR-02 ABF-01 IGA-02 INT-05 /120 W
-----092039Z 089967 /42

O R 091811Z MAR 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC IMMEDIATE 1435
TREASURY DEPT WASHDC IMMEDIATE
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY NEW DELHI
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL BELFAST
AMCONSUL EDINBURGH
USMISSION EC BRUSSELS
USMISSION OECD PARIS
USDEL MTN GENEVA
USDOC WASHDC

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DEPARTMENT PASS FEDERAL RESERVE BOARD

TREASURY FOR DONALD E. SYVRUD, OASIA

E.O. 11652: N/A
TAGS: ECON, UK
SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD MARCH 3 - 9

SUMMARY: STERLING AND GILTS WERE SUBJECT TO HEAVY BUYING
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PRESSURE. ECONOMIC STATISTICS TOOK ON A MORE POSITIVE
TONE WITH WHOLESALE PRICES RISING MORE SLOWLY. REVISIONS
IN THE 1976 CURRENT ACCOUNT NARROWING THE DEFICIT AND
INDICATIONS THAT THE CLEARING BANKS' ELIGIBLE LIABILITIES
HAVE FALLEN FOR THE THIRD CONSECUTIVE MONTH. IN ADDI-
TION. THE PUBLIC SECTOR BORROWING REQUIREMENT FELL SHARP-
LY DURING THE LAST QUARTER OF 1976. HOWEVER, CONSUMER

DEMAND CONTINUES SLACK WITH RETAIL SALES VOLUME EASING PERCEPTIBLY IN JANUARY. END SUMMARY.

1. FOREIGN EXCHANGE DEVELOPMENTS. STERLING STRENGTHENED DURING THE WEEK. PARTICULARLY ON MONDAY AND TUESDAY FROM STRONG BUYING PRESSURE. BUYING PRESSURE FROM THE UNITED STATES WAS TERMED LARGELY COMMERCIAL, FROM THE CONTINENT. PRIMARILY PROFESSIONAL AND JOBBING. PSYCHOLOGICAL FACTORS ALSO APPARENTLY PLAYED A ROLE, AS UPWARD TRIGGER POINTS WERE PASSED; I.E., \$1.7150. COMMERCIAL JUDGMENTS WERE CHANGED AND EARLIER SELLERS BECAME BUYERS IN ANTICIPATION THE RATE WOULD CONTINUE UPWARD. MARKET SOURCES ESTIMATE THE BANK OF ENGLAND LEANED HEAVILY AGAINST THE WIND. POSSIBLY TAKING IN UP TO \$250 MILLION IN THE FIRST TWO DAYS OF THE WEEK. THE BANK WAS SAID TO CONTINUE ITS HEAVY INTERVENTION DURING THE FIRST HOUR OF WEDNESDAY TRADING WHEN STERLING WAS AGAIN IN STRONG DEMAND, EUROPEAN COMMERCIAL BUYING PREDOMINATING.

2. THE GILT MARKET ADVANCED STRONGLY ON TUESDAY AND WEDNESDAY. THE LONGER MATURITIES GAINING TWO POINTS DURING THE TWO DAYS. MARKET SOURCES NOTED THAT THERE HAD BEEN VERY LITTLE ACTIVITY IN THE LONG MARKET FOR SEVERAL WEEKS SO DOUBTLESSLY BUILT UP LIQUIDITY COULD HAVE FINANCED THE SURGE WHICH WAS TRIGGERED BY BETTER MONEY SUPPLY FIGURES THAN ANTICIPATED. THERE WAS ON THE OTHER HAND SCATTERED SPECULATION THAT CONTINENTAL INTEREST IN HIGH STERLING YIELDS AND BELIEF IN A STABLE POUND ENGENDERED THE ACTIVITY IN BOTH THE GILT AND FOREIGN UNCLASSIFIED

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EXCHANGE MARKETS.

3. PUBLIC SECTOR BORROWING. AT 1.76 BILLION POUNDS, THE FOURTH QUARTER PUBLIC SECTOR BORROWING REQUIREMENT (PSBR) WAS THE SMALLEST IN OVER TWO YEARS. OVER THE FIRST 9 MONTHS OF FY 76 TOTAL GOVERNMENT BORROWING AMOUNTED TO 6.96 BILLION POUNDS COMPARED WITH 8.34 BILLION FOR THE SAME PERIOD IN FY 75. THE FOLLOWING TABLE SUMMARIZES THE MOVEMENT OF THE PSBR OVER THE PAST 8 QUARTERS:

(SEASONALLY ADJUSTED)

(BILLIONS OF POUNDS)

1975 I	2.45	1976 I	2.26
1975 II	2.97	1976 II	2.77
1975 III	2.62	1976 III	2.39
1975 IV	2.75	1976 IV	1.76

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SSO-00 NSCE-00 USIE-00 SP-02 AID-05 EB-08 NSC-05
SS-15 STR-04 OMB-01 CEA-01 CIAE-00 FRB-01 INR-07
NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01 AGRE-00 FEA-01
OPR-02 ABF-01 INT-05 IGA-02 /120 W
-----092039Z 090851 /41

O R 091811Z MAR 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC IMMEDIATE 1436
TREASURY DEPT WASHDC IMMEDIATE
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY NEW DELHI
AMEMBASSY PARIS
AMEMBASSY ROME
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AMCONSUL BELFAST
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USMISSION EC BRUSSELS
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THE BULK OF THE DECLINE IN THE CURRENT FISCAL YEAR STEMS
FROM A 1.05 BILLION POUND REDUCTION IN BORROWING BY LOCAL
GOVERNMENT AUTHORITIES AS CAPITAL SPENDING PROGRAMS HAVE
BEEN TRIMMED OR POSTPONED. HIGHER THAN ANTICIPATED CEN-
TRAL GOVERNMENT REVENUES HAVE ALSO CONTRIBUTED TO THE
IMPROVEMENT ALTHOUGH THESE ARE THE PRODUCT OF INCREASED
FISCAL DRAG.
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WHILE THE FINAL PSBR FOR THE ENTIRE FISCAL YEAR WILL

NOT BE KNOWN UNTIL JUNE IT IS MOST UNLIKELY THAT HM TREASURY'S DECEMBER ESTIMATE OF 11.2 BILLION POUNDS WILL BE REALIZED. THE FIRST NINE MONTHS EXPERIENCE WOULD PROJECT A FIGURE OF 9 TO 10 BILLION POUNDS. THIS IS ABOUT A BILLION POUNDS LOWER THAN THE 10.5 BILLION TOTAL OF FY 75. THE LIKELIHOOD OF A CONSIDERABLE SHORTFALL IN THIS YEAR'S PSBR HAS LED TO SPECULATION IN THE PRESS THAT THE 8.7 BILLION POUND PSBR PLANNED FOR FY 77 IS ALSO ON THE HIGH SIDE. THIS COULD PROVIDE THE OPPORTUNITY FOR A SIZABLE TAX REDUCTION WHILE STILL PERMITTING HMG TO REMAIN WITHIN CONDITIONS SET OUT IN ITS IMF LETTER OF INTENT.

4. WHOLESALE PRICES. WHOLESALE PRICES ROSE LESS DRAMATICALLY IN FEBRUARY. THE PRICE INDEX (1970 EQUALS 100) OF RAW MATERIAL AND FUEL INPUTS STOOD AT 339.6, A RISE OF 0.5 PERCENT FROM THE JANUARY LEVEL OF 337.8. IN THE THREE MONTHS THROUGH FEBRUARY INPUT PRICES ROSE BY 2.4 PERCENT COMPARED WITH 9.4 PERCENT DURING THE PREVIOUS THREE MONTH PERIOD. STEMMING LARGELY FROM THE RELATIVE STABILITY OF STERLING, THIS IMPROVEMENT MAY HERALD AN EASING OF NON-LABOR COST PRESSURES WHICH HAVE CONTRIBUTED TO THE 28.7 PERCENT INCREASE IN INPUT PRICES SINCE FEBRUARY 1976.

ON THE OTHER HAND, WHOLESALE PRICES FOR GOODS EX-FACTORY (OUTPUTS) ROSE 1.3 PERCENT IN FEBRUARY WITH THE INDEX MOVING TO 248.1 FROM 244.9 IN JANUARY. WHILE RISING LESS THAN HALF AS RAPIDLY AS IN JANUARY, OUTPUT PRICES ARE CURRENTLY 19.7 PERCENT ABOVE THEIR LEVEL OF 12 MONTHS AGO. IN FACT, THE RATE OF INCREASE OF OUTPUT PRICES CONTINUED TO ACCELERATE DURING THE PAST THREE MONTHS. DURING THE THREE MONTHS ENDING IN FEBRUARY, THE INDEX ROSE BY 5.8 PERCENT COMPARED WITH A 5.0 PERCENT RISE DURING THE PREVIOUS THREE MONTHS. THE ACCELERATION MAY REFLECT LAST AUTUMN'S SHARP SLIDE IN STERLING TOGETHER WITH SOME INDIRECT TAX INCREASES ANNOUNCED IN CON-

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NECTION WITH THE DECEMBER AGREEMENT WITH THE IMF.

5. RETAIL SALES. RETAIL SALES VOLUME DECLINED IN JANUARY. THE INDEX OF RETAIL SALES (1971 EQUALS 100) WAS REVISED DOWNWARD TO 107.2 FROM A PROVISIONAL ESTIMATE OF 108.0. THE JANUARY INDEX IS 0.8 PERCENT BELOW THE DECEMBER FIGURE OF 108.2. THE DECLINE IS DUE TO A FALL OF 3.8 PERCENT IN THE SALES VOLUME OF FOOD SHOPS AND A 3.1 PERCENT FALL IN DURABLE GOODS VOLUME. THE JANUARY 1977 DECLINE CONTRASTS SHARPLY WITH THE RISE OF 3.4 PERCENT IN JANUARY 1976. THAT INCREASE WAS ATTRIBUTED TO SUCCESSFUL END-OF-YEAR CLEARANCE SALES. THE DISAPPOINTING 1977 FIGURES ARE OFFICIALLY ATTRIBUTED TO CHANGED CHRIST-

MAS AND NEW YEAR'S HOLIDAY PATTERNS AND INDIRECT TAX INCREASES ANNOUNCED IN DECEMBER. NEVERTHELESS STAGNANT OR DECLINING REAL DISPOSABLE INCOME HAS CONTRIBUTED TO RESTRICTING THE UPWARD VARIATION IN SALES VOLUME TO THE NEIGHBORHOOD OF 1 PERCENT SINCE 1974.

6. RETAIL CREDIT. RETAIL STORES AND FINANCE HOUSES EXTENDED 41 MILLION POUNDS (S.A.) IN NEW CREDIT IN JANUARY. THIS CONTINUED THE PATTERN OF INCREASING CONSUMER DEBT. EDNESS THAT WAS REESTABLISHED IN 1976 AFTER TWO YEARS OF DECLINING TOTAL OUTSTANDING CONSUMER DEBT. THE 41 MILLION POUND FIGURE IS IN LINE WITH THE MONTHLY AVERAGE OF 38 MILLION POUNDS WHICH CHARACTERIZED THE LAST 6 MONTHS OF 1976.

7. BALANCE OF PAYMENTS STATISTICS FOR THE WHOLE OF 1976, RELEASED MARCH 8. REVISE THE CURRENT ACCOUNT DEFICIT 123 MILLION POUNDS DOWNWARD TO 1423 MILLION POUNDS FROM THE FEBRUARY ESTIMATE, AND. DESPITE A STRONG FOURTH QUARTER IMPROVEMENT, SHOW A CAPITAL OUTFLOW OF 1938 MILLION POUNDS IN 1976.

THE CURRENT ACCOUNT DEFICIT IN 1976' 212 MILLION POUNDS LESS THAN IN 1975, WAS CHECKED BY THE 621 MILLION POUND GROWTH TO 2169 MILLION POUNDS IN THE SURPLUS ON IN-

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VISIBLE TRANSACTIONS. NET CREDITS ON TRAVEL. IN PARTICULAR. INCREASED FROM 236 MILLION POUNDS IN 1975 TO 625 MILLION POUNDS IN 1976. NET EARNINGS OF FINANCIAL SERV-

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INFO OCT-01 EA-09 NEA-10 IO-13 ISO-00 EURE-00 INRE-00
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OMB-01 NSC-05 SS-15 STR-04 CEA-01 AGRE-00 FEA-01
OPR-02 ABF-01 IGA-02 INT-05 /120 W
-----092039Z 091403 /41

O R 091811Z MAR 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC IMMEDIATE 1437
TREASURY DEPT WASHDC IMMEDIATE
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
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ICES ROSE 180 MILLION POUNDS TO 935 MILLION POUNDS. ON
THE OTHER HAND. NET INTEREST. PROFITS AND DIVIDENDS, AL-
THOUGH AT 1086 MILLION POUNDS, 166 MILLION POUNDS GREATER
THAN IN 1975, WERE 247 MILLION POUNDS LOWER THAN IN 1974
DUE TO THE GROWING INTEREST PAYMENTS ON THE PUBLIC SECTOR
DEBT.

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THE OUTFLOW OF INVESTMENT AND OTHER CAPITAL WAS THE
LARGEST IN TWENTY YEARS. AND PERHAPS EVER. THE SIZE OF
THE OUTFLOW IS PRIMARILY DUE TO THE LARGE RUNDOWN IN OF-
FICIAL HOLDINGS OF STERLING BALANCES DURING THE FIRST
THREE QUARTERS OF 1976. THE SHARP IMPROVEMENT IN THE
FOURTH QUARTER ARISES FROM VERY LARGE CAPITAL INFLOWS THAT
OCCURRED DURING THE SECOND HALF OF DECEMBER. THESE IN-
FLOWS WERE, IN PARTICULAR, SWOLLEN AS THE NOVEMBER EXCHANG
CHANGE CONTROLS MEASURES BEGAN TO REDUCE THE STERLING
FINANCE OF THIRD COUNTRY TRADE. (SEE LONDON A-175.)

SUMMARY BALANCE OF PAYMENTS (POUNDS MILLION)

1976

1ST 2ND 3RD 4TH

1976 QTR. QTR. QTR. QTR.

NOT SEASONALLY ADJUSTED

CURRENT BALANCE -1,423 -233 -480 .374 -336

INVESTMENT AND OTHER

CAPITAL FLOWS .1.938 -258 -1.468 -514 302

BALANCING ITEM 267 .187 - 7 26 -99

BALANCE FOR OFFICIAL

FINANCING	3,628	-678	-1,955	-862	-133
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OFFICIAL FINANCING

NET TRANSACTIONS WITH.

IMF	1,018	-580	438	.	-
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OTHER MONETARY

AUTHORITIES	-	34	.	581	309	924
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BY PUBLIC SECTOR UNDER

EXCHANGE COVER

SCHEME	1,791	276	582	492	441
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OFFICIAL RESERVES (DRAW-

INGS ON, PLUS/ADDI-

TIONS TO,-)	853	-178	354	61	616
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THERE WERE NO DRAWINGS IN THE PERIOD ON A EURODOLLAR

FACILITY FOR HMGVERNMENT TO BORROW \$2.6 BILLION.

8. BANKING FIGURES FOR THE MONTH ENDING FEBRUARY 16 INDI-
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CATED CONTINUED CONTRACTION IN U.K. MONEY STOCKS. THE
MONTH MAY BE SUMMARIZED AS: CHANGE FROM

	FEBRUARY 16 (MILLIONS OF POUNDS)	JANUARY 19 (MILLIONS OF POUNDS)	
ELIGIBLE LIABILITIES	34,827	-1,319	
OF WHICH INTEREST BEARING	23,912	-1,092	
BANKS SPECIAL DEPOSITS	705	- 377	
RESERVE ASSETS	4,792	- 426	
OF WHICH			
MONEY AT CALL IN THE DISCOUNT			
MARKET	2,047	47	
U.K. NORTH IRELAND TREASURY			
BILLS	1,153	- 165	
BRITISH GOVERNMENT STOCKS			
WITH LESS THAN A YEAR TO			
MATURITY	440	.68	
RESERVE RATIO	13.8 PERCENT	-0.6 PERCENT	

ELIGIBLE LIABILITIES HAVE NOW FALLEN FOR THREE SUC-
CESSIVE MONTHS AND STAND AT THEIR LOWEST LEVEL SINCE
JUNE 16, 1976. INTEREST BEARING ELIGIBLE LIABILITIES
ARE WELL WITHIN BOUNDS OF THE CORSET. STANDING AT THEIR
LOWEST LEVEL SINCE JULY 21' 1976.

THE FALL IN ELIGIBLE LIABILITIES REFLECTS THE MASSIVE
SALE OF GILTS OF THE PREVIOUS MONTHS. NO SALES OF NEW
TAP STOCKS HAVE TAKEN PLACE SINCE FEBRUARY 19, SO PART
OF THE CONTRACTIONARY PRESSURE SHOULD BE REMOVED IN THE
CURRENT BANKING MONTH. RESERVE RATIOS ARE, HOWEVER, QUITE
LOW, ONLY TWO MONTHS SHOWING EQUALLY LOW RATIOS SINCE

1974. UNDER THESE CIRCUMSTANCES. ANY LOSS OF RESERVES
MIGHT EXERT ADDITIONAL STRONG CONTRACTIONARY PRESSURE.

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9. WOOD, MACKENZIE AND CO.'S FORECAST OF THE IMPACT OF
NORTH SEA OIL AND GAS ON THE U.K. ECONOMY SEES THE SEC.
TOR.S BALANCE OF PAYMENTS BENEFITS RISING FROM 1.2 BILL-
ION POUNDS IN 1976 TO OVER 6.2 BILLION POUNDS IN 1985.
UNTIL 1980 THE CAPITAL INFLOW ASSOCIATED WITH NORTH SEA
DEVELOPMENT IS FORECAST AT NEARLY 800 MILLION POUNDS PER
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ANNUM, BUT IS REVERSED THEREAFTER. (SEE LONDON A-154.)

10. THE NATIONAL INSTITUTE OF ECONOMIC RESEARCH'S FEBRUARY REVIEW ESTIMATES THAT THE U.K. ECONOMY IS OPERATING AT 10 PERCENT BELOW CAPACITY AND THAT DEMAND IS NOT CURRENTLY EXERTING INFLATIONARY PRESSURE. (SEE LONDON 3534.)

11. EXCHANGE RATE AND GOLD

EFFECTIVE

	EXCHANGE RATE (\$)	EXCHANGE RATE (PERCENT)	GOLD (\$)
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DATE

3/2	1.7150	61.8	144-5/8
3/2	1.7135	61.7	144-7/8
3/4	1.7142	61.8	145-7/8
3/7	1.7172	61.9	148-5/8
3/8	1.7175	61.9	146-5/8

CHANGE 3/1 - 3/8 UP 0.0040 UP 0.2 UP 5

12. FORWARD DISCOUNT ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
3/2	1.20	3.45	6.05
3/3	1.15	3.35	6.12
3/4	1.32	3.35	6.19
3/7	1.32	3.40	6.25
3/8	1.22	3.27	6.32

CHANGE 3/1-3/8 WID. 0.02 NAR. 0.01 WID. 0.24

(ALL FIGURES IN CENTS)

13. EURODOLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
3/2	4-5/8	5-1/8	5-1/2
3/3	4-7/8	5-1/8	5-5/8
3/4	4-7/8	5-1/8	5-1/4
3/7	4-7/8	5-1/8	5-5/8

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3/8	4-7/8	5 1/8	5-1/2
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CHANGE 3/1-3/8 UP 1/4 UP 1/8 UP 1/8

14. THREE-MONTH LONDON INTERBANK - EURODOLLAR INTEREST RATE DIFFERENTIAL

DATE

3/2	6-13/32
3/3	6-1/4

3/4 6-5/16

3/7 6-3/8

3/8 6

CHANGE 3/1-3/8 UNCHANGED

15. STERLING CERTIFICATES OF DEPOSIT

DATE	1 MONTH	3 MONTHS	6 MONTHS
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3/2	11-7/16	11	10-3/4
-----	---------	----	--------

3/3	11-17/32	11-1/32	10-13/16
-----	----------	---------	----------

3/4	11-19/32	11-1/16	10-7/8
-----	----------	---------	--------

3/7	11-9/16	11-7/64	10-27/32
-----	---------	---------	----------

3/8	11-13/32	11	10-13/16
-----	----------	----	----------

CHANGE 3/1-3/8 DOWN 3/32 DOWN 1/16 DOWN 1/32

16. THE MINIMUM LENDING RATE (MLR) CONTINUED TO BE SET BY THE BANK OF ENGLAND AT 12 PERCENT. THE SUSPENDED FORMULA WOULD HAVE SET MLR AT 11.1/4 PERCENT AS THE TREASURY BILL RATE FELL 0.0986 PERCENT TO 10.6676 PERCENT AT LAST FRIDAY'S TREASURY BILL AUCTION. 849.27 MILLION POUNDS IN BIDS WERE RECEIVED FOR THE 300 MILLION TENDERED. THIS WEEK ANOTHER 300 MILLION POUNDS WILL BE TENDERED.

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Message Attributes

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Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Litigation History:
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SAS ID: 3163439
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Status: NATIVE
Subject: ECONOMIC DEVELOPMENTS FOR PERIOD MARCH 3 - 9 SUMMARY: STERLING AND GILTS WERE SUBJECT TO HEAVY BUYING
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TAGS: ECON, UK
To: STATE TRSY
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/515f5ebb-c288-dd11-92da-001cc4696bcc
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22 May 2009
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